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## SOUTHERN ECONOMY: ITS CURRENCY AND FINANCIAL PROBLEMS

By KŌJI MATSUOKA

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### 1.

As is generally known, one of the immediate reasons for the outbreak of the war of Great East Asia is the interference of the United States with Japan's acquisition of resources from southern economy. Our national plan for the mobilization of materials was made in the year 1936 in anticipation of a future international crisis and was to be completed in the year 1942, its object being to construct a high-degree national defense state. This plan, on its military side, was said to be completed in a five-year period from 1937 to 1941. The War of Great East Asia made no change in the plan of constructing a high-degree national defense state, and the significance of southern economy cannot be realized apart from this national aim.

Thus, the significance of southern economy should be considered as a problem of the entire sphere of Great East Asia, and there are two concrete issues that should be studied in this connection. In the first place, the relation of southern economy with Japan-Manchoukuo-China economy should be considered. Secondly, the relation of southern economy with such outer spheres as Indian economy and Australian economy should be also studied. True, more fundamentally speaking, the significance of southern economy should be judged from the significance of Great East Asia economy in the world, but I cannot dwell on this problem at length at present. In this connection, there are some who, being too eager to attain self-sufficiency in the supply

of resources in East Asia, which are needed in the execution of the War of Great East Asia aiming at driving out the Anglo-Saxon influence from East Asia, are unwilling to consider the problems of relations between East Asia wider territory economy and other wider territory economies in the future. Such attitude is plausible only in connection with the necessity of realizing self-sufficiency in Great East Asia economy as quickly as possible. It should be noted, however, the problems of contact or relation between Great East Asia economy and other wider territory economies will inevitably arise in the future. Thus, we should be prepared to study the internal as well as external problems of Great East Asia economy.

## 2.

To go back to our main issue, we should consider the relation between southern economy and Japan-Manchoukuo-China economy. For the time being at least, southern economy should be utilized in the construction of a high-degree national defense state with Japan, Manchoukuo and China as its centre. Unless such a state be realized and the East Asia defense structure be established, and thereby fully prepared for all emergencies, we would not be able to stand a long-drawn exhaustive war not to crush out our present enemies. In this sense, southern economy is of secondary importance in the Great East Asia ground in which the high-degree national defense structure of Japan, Manchoukuo and China is of paramount importance. If southern economy be considered as a nursing ground of Japan-Manchoukuo-China economy, it is the primary nursing ground.

As to Australian economy and Indian economy, in Great East Asia, these should be considered as of different importance as they are important suppliers of food and clothing resources to Japan-Manchoukuo-China economy. These two outer economies should be regarded as the second nursing ground as against the first nursing ground of southern econo-

my.

If Great East Asia be likened to a house, it may be said that in its design, Japan, Manchoukuo and China constitute its inner chamber, as against the veranda or the sun-room of southern economy. The sun-room may be a very comfortable place for dwellers, but this fact should not cause the neglecting of the inner parlour or the kitchen, in its designing.

Now, the significance of southern economy being viewed as such so far from world economy or from East Asia economy, what preparations are there being made, let us ask, for its development and adjustment? This is a matter of grave importance together with the currency problems which I shall take up later and for which the former will prove a basic condition.

At the 79th session of the Imperial Diet, the Prime Minister announced the four basic principles governing our policy of economic construction for the southern region; while the President of the Planning Board has also set forth eight principles governing the realization of the four basic principles. The four basic principles are: (1) securing of resources from southern economy, especially those which are indispensable for the execution of the present war; (2) preventing important resources from falling into the hands of our enemies; (3) securing of means of subsistence for the Imperial forces on the spot; and (4) obtaining the cooperation of existing economic establishments in the southern region in the execution of our policy.

All of these four principles are appropriate both as a declaration of economic construction for Great East Asia and as an outline of our war policy. The eight principles enunciated by the President of the Planning Board outline a more detailed policy. They are as follows:

1. The economic disposition in East Asia should be made with Japan-Manchoukuo-China economy as its basic factor, while the order of development for various resources should be decided by the Government according to the pro-

gress of the war. This principle concerns with the order of development of resources.

2. Those to be in charge of the development of resources should be selected from among experienced industrialists of proven ability whose enthusiasm and initiative should be fully utilized; and their selection should be based on the views of civilian control associations, and consideration should be given to utilizing the existing industrial establishments at the place. This principle concerns with the selection of persons in charge of actual economic development.

3. Military notes are to be circulated as currency at the spot except French Indo-China and Thailand and their unification is to be made gradually. Consequently, the movement of capital between Japan and the southern region in principle is not recognized. The capital needed for economic development for the region is to be accommodated by the South Development Chest. This principle concerns with currencies at the place of action.

4. The exchange of material goods is to be based on the materials mobilization plan and is to be pre-arranged in accordance with changing military conditions. Consequently, their export to Japan for the time being will be carried on by government appropriations. The gathering and distribution of goods are to be made with the cooperation of Chinese and other merchants at the spot, with the Japanese side. This principle deals with the exchange, gathering and distribution of goods.

5. The transportation of southern goods is to be made under the control of the military. This principle concerns with the transportation of goods.

6. The falling of the special resources of the southern region into the hands of the enemy nations is to be prevented. This principle concerns with the counter-blockade of the enemies.

7. In view of the urgency of constructing Japan-Manchoukuo-China economy, the emigration of the ordinary Japanese nationals to the southern region is to be prevented.

This principle concerns with the prevention of the emigration of ordinary Japanese nationals.

8. The greatest object at this present stage of the war is to win in the military and naval operations. This principle concerns with the present supreme aim.

By far the most important principle of these eight principles is the last one, namely, to win the war. The Prime Minister has clarified this point in the following language: "Our most urgent task today is to mobilize all national forces in order to crush our enemies in the battle field and to strengthen our fighting power and to maintain the condition for winning the final victory."

Under such a policy of construction an industrial program for Japan, Manchoukuo and China has been carried out and will expire this year. The second program will be commenced beginning from the next year. It will be more hopeful of success, if it should include southern economy in its plan. And it is in a position to include southern economy in its new scheme. It is a matter of great joy that we have now done away with our dependence on Great Britain and the United States in our materials mobilization program which we had to carry out with unspeakable agony prior to the outbreak of the War of Great East Asia and that we are now able to make our own materials mobilization plan on our own resources in East Asia and thereby promote the establishment of the East Asia defense structure. It is in recognition of such a state of affairs that the first principle announced by the President of the Planning Board declares that "the order of development for various resources should be decided by the Government according to the progress of the War;" and that all important resources acquired or developed are to be included in the Government materials mobilization plan and the fourth principle declares that their development is to be "pre-arranged in accordance with changing military conditions."

The present plan of developing resources in southern economy differentiates those southern peoples who have

been cooperating with Japan even before the War of Great East Asia, from those who have been cooperating with our enemies. The resources to be developed are classified into (1) those which should be speedily developed from the necessity of acquiring national defense resources, (2) those which may be gradually developed and (3) those whose development should be restricted or which should be replaced by some other industry. At any rate, their ante-bellum conditions are being studied for reference purposes in order to formulate the new economic program which will take into consideration such important factors as Japan's productivity, the relation between the southern region and Japan's present industrial equipment, her shipping power and other economic factors. To state more concretely, the Japanese Government will first decide on the order of resources to be developed, and in the case of such important resources as petroleum, iron, pokesite, copper, etc. all of which are urgently needed, their output is decided upon and men in charge of their development are selected. The selection of such entrepreneurs has been a serious issue in the past. Profiting from its experiences in both Manchoukuo and China, the Japanese Government will avoid creating new companies or amalgamating existing companies for joint industrial projects. Nor will the Government permit the enterprises of control association. On the other hand, the Government will mobilize experienced individuals of great capacity whose initiative will be utilized for the industrial development of southern economy. This is an important point in the Japanese policy for the southern region.

Those who are in charge of southern development will purchase at the spot what is necessary for their work from the Government and will get the supply of men needed both from Japan and at the spot. Capital needed for the purchase of materials and for salaries and wages will be supplied from the South Development Chest. Thus, substantially speaking, all that men in charge of southern development will bear as their own burden is technique and operators.



As a result of all this arrangement, the industrialists need not worry, as they would have done hitherto, to get both capital and materials; and they can thus concentrate their entire energy on their actual work of economic development.

The various resources thus produced will be purchased by the Government. In fixing prices, the producers are permitted to include a profit equivalent to a certain rate of commission. What relation this rate of commission will bear to the actual rates of industrial profit in Japan will not be of any importance so long as the movement of capital between Japan and the southern region is prohibited for the time being by the third principle of southern development. The resources thus bought will be sent under military control to Japan, and excepting that part which will be needed by the Army or to be stored by the Resources Administration Board, will be sold at suitable prices. Of the resources sold to civilians by the Government, mineral resources will be distributed through their respective control associations among various companies, and their apportionment will be decided as is done at present by conference between the Department in charge and various control associations. Various food and provisions from agricultural, forestry and fishery resources will be stored by the Central Provisions Board. The above-mentioned form of development for southern economy is unprecedented in the history of Japanese overseas administration. In a nutshell, its aim may be said to promote the organic administration of capitalist economy in war time under strict military control.

3.

I have outlined the general aspect of southern economy. I shall here-after take up one of its most important measures, namely, southern currencies.

Southern currencies, as mentioned in connection with the third principle of economic development, are to be ad-

ministered by the South Development Chest. Generally speaking, whereas southern currencies at present are to be administered for the purpose of acquiring material goods necessary for the perfection of the Great East Asia defense structure, those of Great Britain and of the United States and the Netherlands East Indies were regarded as a means of satisfying the luxury of their home countries or of accumulating their wealth, through the economic exploitation of colonies and semi-colonies in the southern region. Before proceeding to discuss the southern currencies, I shall trace the currency war which brought to being the South Development Chest, from the standpoint of the development of East Asia currencies. Generally speaking, this currency war has two objectives: it aims at overcoming the Anglo-Saxon currencies and at the same time it is intended to reorganize the old currencies of Great Britain, the United States and the Netherlands, so as to bring them to our camp in the present currency war. It is necessary, therefore, for us to examine the economic theory by which these Western nations succeeded in building up the currency ground in Great East Asia.—For, the principle of leading the present currency war to our advantage both at present and future can be fundamentally grasped only by studying the nature of the currency systems of our enemies in their historical development. This point has been rather neglected by Japan as shown by the progress of the prevailing currency war. I cannot at present dwell in detail on the various aspects of this matter but at any rate no over-emphasis can be placed on the importance of examining the enemies' currency systems in connection with the present currency war.

We may mention the following as our hostile currencies: the Indian rouble in Burma, the Strait dollar in the Strait Settlement and Malays, and the Australian pound—all of which are British currencies; the American currency of peso in the Philippines; and the guilder in the Netherlands East Indies.

Mention may be also made of the piastre in French

Indo-China and the baht in Thailand, but these have already linked themselves to the yen in the currency war and have adopted themselves to the development of the War of Great East Asia.

Needless to state, all the colonies and semi-colonies of the southern region were under the domination of Great Britain, or the United States, France or the Netherlands. Thailand was virtually under the domination of Great Britain. Naturally, the character of the economies of all these countries was that of a colonial or semi-colonial economy. With the development of capitalist economy in the Western nations, the southern countries became the objects of domination by Western financial capital. Just before the outbreak of the War of Great East Asia, their economies had been placed under the domination of their home countries. The fertile productivity of southern economy may be referred to from the saying that "the one who controls the South Seas will control the world." The profit-making in the southern region increased and the accumulation of profit in the region resulted in its further development. Superficially, it seemed that the countries in the southern region were very little affected by the capitalism of their home countries in the West. In reality, however, the function of the capital of the home countries was fundamental in the development of the economies of the southern region as may be referred from the fact that the movement of the world has been from industrial capital economy to financial capital economy. The truth is that the gold exchange standard which was put into operation by these Western nations in their colonies or semi-colonies in the southern region, functioned in the form of currency policy by means of the financial capital of the home countries, its object being to exploit their colonies or semi-colonies.

The gold exchange standard was the foundation stone of the currency structure of southern economy under the Anglo-Saxon influence. This truly indicates the historical fact that the predatory currency measure based on the

aquisition of resources in East Asia and adopted by modern financial capital economy, made its model development in the form of the gold exchange standard in this part of the world.

(1) Let us first review the history of the advance in this region of Western financial capital economy by means of the gold exchange standard. It was back in 1893 that Great Britain began to make its economic inroads into India by means of this currency standard.

This British advance freed the Indian rouble from the price fluctuations to which it had been subjected and which were due to the variations of the comparative prices of gold and silver under the old silver standard; and further had the effect of promoting Indian trade with Great Britain under a stabilized currency. Later in 1919 and again in 1925 the Indian currency finance gradually promoted the interests of India herself. On the whole, however, the Indian rouble is based on the fundamental conception that India is a British colony, and her currency system has been continued on the basis of the interests of her master, Great Britain.

For some time after the First World War, India continued to enforce the gold bullion standard and she has been enforcing the so-called pound gold exchange standard after the year 1931. Up to 1934, the Bank of the Empire of India was the issue bank for India but after that year the India Reserve Bank has succeeded. Besides the bank notes, the Government paper currencies are also circulated. The ration between the two is one rouble for one shilling and six pence.

(2) Although Burma differs from India in respect to race, religion and custom, it has been ruled over as part of the latter. In consequence, its currency has been like that of India, namely, the gold exchange standard. After 1931 its currency system was the pound gold exchange standard just as in the case of India. Thus, the economy of Burma has been controlled, though indirectly through the Indian rouble, by British capital, especially financial capital operating through the gold exchange standard system. Its issue bank

is the same as that of India but there are two kinds of bank notes, namely, the Bank of Burma notes and the Bank of India notes. There are also paper currencies issued by the Indian Government. The form is the same for the two countries.

(3) Let us now turn to the Straits Settlement, British Malaya and Borneo. The Straits Settlement has freed itself from the currency control of India and the circulation of the rouble there has been abandoned. There divergent currencies of various nations are circulated in disorderly manner. This state of affairs led to the currency reform of 1903 by which the gold exchange standard came into being. The major portion of currencies circulated was made up of the paper money issued by the Government Currency Board but the specie and security reserves were kept in London. Besides the Government paper currencies, there are the notes issued by Chartered Bank of India, Australia and China and the Shanghai and Hongkong Banking Corporation and their issuance was based on the gold exchange standard. In the absence of any mint, the currencies were made in London. One Strait dollar is equal to two shillings and four pence.

(4) The currency of the Netherlands East Indies is the guilder which is also based on the gold exchange standard. In point of time, the gold exchange standard of the Netherlands East Indies is older than that of India. Even as far back as 1864 there was a kind of silver exchange standard based on silver coin certificates. It came to be replaced by the gold exchange standard in 1901 and 1912. All this currency advance was due to the fact that the Netherlands East Indies had high productivity over other southern colonies and had satisfied its home country and the European market by its rich resources. With the development and advancement of its economic power, it came to be linked with the currency system of the Netherlands and thus came to adopt the gold exchange standard.

After the close of the First World War, however, the

economic activities of Great Britain and the United States in the Netherlands East Indies became increasingly keen and the colony itself gradually came to be placed under the economic influence of these Anglo-Saxon nations. This became all the more pronounced since 1936 when the gold bloc in Europe collapsed, especially after the Dutch Government took refuge in England following the outbreak of the Second World War. The guilder of the Netherlands East Indies is supposed to be equal in value with that of the Netherlands. Its latest rate is 64 guilders for 100 American dollars. The guilder currencies are issued by the Bank of Java but the government paper currencies are also circulated. On March 31, 1941, there were two forms of currency reserves, domestic and external, the latter being kept in the United States.

(5) Next I shall consider the peso of the Philippines. The term "the gold exchange standard" is said to have been originated in the United States. Naturally enough, the United States has been paying the closest attention to this currency system. It is clear that the United States was given a hint for currency reform by the currency reform of India in 1893. Since 1867 the United States has been studying the problems of the depreciation of silver and its counter measures. The general policy of the United States in meeting this problem was to persuade the countries of Continental Europe to revive the monetary character of silver, but failed to achieve success. By 1896 India succeeded in establishing its exchange policy as a silver nation and adopted the gold exchange standard, with results which were more successful than had been anticipated. This made a deep impression on the United States. The new currency system adopted by India was called "the gold exchange standard" by the United States which then tried to apply it to its Far Eastern colony and to the nations in its sphere of influence in Central and South America.

The economic power of the Philippines was not so active as those in India and the Netherlands East Indies. This fact

stimulated the American economists in making studies in favour of the gold exchange standard by 1903. This was only too natural when viewed from the American political economic developments. However, the ever-increasing economic burden of the Philippines on the United States led that country to decide to accord independence to its Far Eastern colony so that it may escape from this economic burden. The characteristic of the gold exchange standard in the Philippines is that it was operated thoroughly from the economic standpoint of the United States, chiefly because, unlike India and the Netherlands East Indies, the economic power of the islands failed to make any development. Its currencies are issued by the Government, the Bank of Philippines and the Philippine National Bank. The official rate of the currency is one dollar to two pesos. In Guam, Midway Island and Wake Island all of which are outside the Southern region, the American currencies have been circulated as they are circulated in the United States.

It is the United States which made a serious study of the gold exchange standard as a currency policy for colonies and semi-colonies. Its endeavours, as far as they are on the surface, are much more pronounced than those made by Great Britain. In 1906 the American Government was asked by both Mexico and China to make investigations into the gold exchange standard. Japan by 1898 had already adopted the same currency system and it is interesting to remember that she assisted the United States in guiding Mexico and China both of which were backward in currency reform. The United States despatched Kemmerer to China in 1929 in order to tell her that the United States had adopted the gold exchange standard. It is interesting to note that this incident has a historical counterpart in that in 1936 the Nanking Government was coerced by Great Britain to adopt the gold exchange standard as currency reform.

(6) Let us now turn to Australia. It was some forty years ago that Australia established a colonial commonwealth. Australian industry was earmarked by thorough dependency

on Great Britain and this naturally led the Australian pound to depend entirely on the pound gold exchange standard. The right of issuing currencies is in the hands of the Commonwealth Bank but in actuality it is issued by the British Finance Ministry which has its board of issue in that bank. In this sense, it may be said that Australia has paper money but no bank notes. The currency reserves at first were gold bullion and gold coins but in 1932 they were replaced by gold and gold certificates and thus the gold exchange standard was adopted. The official rate is par with the pound. In British New Guinea the Australian paper money is circulated.

(7) Lastly, I shall take up the piastre of French Indo-China and the baht of Thailand. Both these are based on the gold exchange standard. It is well known that French Indo-China as a French colony adopted the gold bullion standard in 1930 and the franc exchange standard in 1936 and that Thailand adopted the pound exchange standard in 1932. It is very noteworthy that these two currencies have recently been linked to the yen and became the object of an exchange settlement agreement, in appreciation of the new political economic developments in East Asia. This also suggests the object of the re-organization of the so-called hostile currencies in the southern region.

#### 4.

Up to the present we are not at liberty to discuss the problems of disposing the so-called hostile currencies in East Asia. However, the South Development Chest and its activities give some hint as to what will be the nature of southern currencies and of southern finance at the present stage of development. In actuality, the military notes already issued in various parts of southern region have been in circulation with great satisfaction.

It may be said that the circulation of such currencies as military notes should be accompanied by both utmost



carefulness and great determination. Their efficiency will be of great importance in view of the fact, that of the temporary war appropriations of 18 billion yen, their allotment will make the southern region as their ground and will be circulated side by side with the vast military forces now in operation along wide fronts. As has been already stated, we had much experience of this kind first in the Manchuria Incident and then in the China Incident, in North China, Mongolia, Central and South China, and have made careful studies thereinto. We are now utilizing our past experience in war finance in the occupied territories in Great East Asia. Our scheme has been well prepared and will be put into operation with rich experience and carefulness.

- I shall now take up the object and activities of the South Development Chest which has been established in order to assist the development of resources in the southern region so as to contribute towards the establishment of the co-prosperity sphere in Great East Asia.

As has been already observed, the problems of the South Development Chest are in an inseparable relation with Great East Asia economy, especially with Japan-Manchoukuo-China economy. These same problems also have close relation with the Bank of Japan Act and the Important Resources Administration Association Act.

I shall first dwell on the important points of the southern financial policy which is to be carried out through the South Development Chest. I shall then outline the mechanism and functions of the chest and lastly I shall touch on the idea of the southern financial sphere.

(I) The following are the salient points of the southern financial policy:

(a) The movement of capital between Japan and the southern region is prohibited except in some extraordinary cases.

(b) The capital needed for the development of the southern region is supplied only through the southern Development Chest which is to control even the long-term

industrial capital under its wing.

(c) All the financial and banking facilities now existing in the south will be utilized for commercial purposes and will be controlled by the South Development Chest which will be a sort of holding bank for them.

(d) To begin with, military notes are to be circulated at par in value with the currencies already in circulation at the spot but in the future the relations between the two will be adjusted according to the nature of circumstances and some unified policy will be established.

(e) Losses incurred in investments and loans made by the South Development Chest are to be compensated by the Government.

(f) The control of the South Development Chest is to be made by the Central Government in Japan.

(g) The expansion of the financial institutions in the southern region is to be made by the banks having offices in the same region.

The trading of resources and goods is to be made according to the plans already made by the materials mobilization plan in regard to items and quantities. The following are the salient points of this trading:

(1) For the time being the Government will buy the goods which are to be supplied to Japan by the countries of the southern region.

(2) The export of goods from Japan to the countries of the southern region will be similarly made by the Government.

(3) In this trading between Japan and the southern region, emphasis will be laid on simplicity and facility in business transaction, and cooperation by private concerns will be solicited. In this trading the Government will be in close touch with the Japanese import and export associations in the southern region.

(4) In the gathering and distribution of materials at the spot, the organization and credit of the Chinese and other merchants who have shown cooperation and sincerity

to the Japanese authorities will be utilized.

The foregoing points have been fully studied and are ready to be realized.

(II) I shall next dwell on the functions of the South Development Chest. The object of the chest is given in the Article 1 of the law governing the chest as follows: "The object of the South Development Chest shall be to supply the funds necessary for the development and utility of the resources in the southern region and also to adjust the currency and finance in the same region." The law only mentions "the southern region" and does not define its boundaries. This is because the southern region will expand with the progress of the Japanese military operations. At the time of my writing, the southern region embraces only the Philippines, Malays, former British Borneo and former Netherlands East Indies. South China, Hongkong and the South Seas islands are not included therein. As has been also observed, Thailand and French Indo-China are placed outside of the southern region.

The funds needed for the development and utility of resources in the southern region are to be supplied in currencies circulated on the spot, and this development is to be made not only for Japan but for the entire co-prosperity sphere.

There are several articles in the law governing the organization of the South Development Chest that provide for the acquisition of funds necessary for the chest at the spot. Article 48 says: "The Government may make loans to the South Development Chest." The same article further says: "The revenue and expenditure bound up with such loans shall belong to the temporary extraordinary military accounts." Article 21 says: "The South Development Chest may issue securities the maximum amount of which shall be an amount equal to ten times the paid-up capital of the chest." Thus, the chest borrows its needed funds in military notes, at par with currencies circulated at the spot, from the temporary extraordinary military accounts and uses them

in the operation of its functions. But since if the development and utility of resources in the southern region be made with military notes at par with the currencies at hand, with the increasing restoration of peace in the region, funds needed will be supplied from capital at hand. At any rate, this matter is a delicate problem at present and time has not yet arrived for clarifying it. The Government has admitted that "it is a difficult task to find any definite rate of exchange among the different currencies in the divergent parts of the southern region." The Government has also made the following announcement regarding its currency policy for the region: "In the future we shall endeavour to wipe out the financial policy of the United States and Britain in the various parts of the southern region and will place the various currencies there under the yen. We shall also endeavour to bring about a condition in which the financial settlement among the different parts of the region could be made at Tokyo, so as to bring Great East Asia financial sphere into being." We may refer from what has been already stated that the function of the South Development Chest for adjusting the currencies and finance of the southern sphere will manifest their real nature in the future.

Thus, besides making investments and loans, the South Development Chest will carry out such other business enterprises as the transaction of its deposits and gold and silver bullions and of monetary bills of exchange, and also carry on other enterprises which are deemed necessary for attaining its object. However, its immediately necessary business is to accomodate longterm fixed capital and to advance short-term loans for producing resources. Thus, other business enterprises such as industrial investment, exchange of different currencies and transaction of bills of exchange are future tasks.

Although the financial settlement of the trade of resources among the different parts of the southern region will be made by the South Development Chest, similar settlement between the southern region and the third countries will be

made by the Bank of Japan according to the new law governing the organization and functions of the bank. It is noteworthy that this point has been explained by the Government in the above-mentioned announcement in view of the present transitional circumstances prevailing in our southern policy.

(III) I shall now dwell briefly on the notion of the East Asia financial sphere which is being conceived in connection with the execution of our financial policy for the southern region. At present the single currency system of military notes is adopted for the territories occupied by the Japanese forces in the southern region, and it appears that the fixing of rates of exchange between the yen and the various local currencies at the spot will be made at some future time. The Government has also made the following announcement regarding the economic structure of the southern region when its economic and financial order has been established:

(a) The Government will establish a new structure based on the yen for settling bills of exchange in the future.

(b) In this case, neither the currencies nor gold of the third countries will be taken into consideration. In other words, the decision on rates will be reached by taking into direct consideration both the yen and the currencies at the spot.

(c) In deciding on the exchange rates, the Government will consider such various factors as productivity, resources and degree of civilization in each of the countries concerned, the greatest factor being the price level. The aim of such an exchange rate is to facilitate the circulation of goods among the different parts of the co-prosperity sphere.

(d) When the proposed East Asia financial sphere has been established, the central bank or issue bank in each of the spheres will issue its notes against its deposits in the Bank of Japan as its reserves. Thus, will come into being the structure for settling bills of exchange for the entire East Asia sphere with the Bank of Japan as the centre of

this mechanism.

What has been so far stated indicates the future establishment of the yen exchange standard based on the Japanese currency. Japan at present is expanding the yen currency sphere in Great East Asia from Manchoukuo in the north to the various occupied territories in the south, and is attempting to consolidate it. True, as has been already observed, the yen currencies in Japan, Manchoukuo and China are not the same with the currencies proposed or enforced in the southern region in respect to their monetary objects. However, these two sets of currencies are destined to become unified into a currency system with the deposits with the Bank of Japan as issue reserves for each member of the co-prosperity sphere.

As to the amount of yen currencies issued, the figure at the end of 1937, inclusive of the currencies of Japan Proper, Chosen, Taiwan and Manchoukuo was given as Yen 3,500,000,000. The figure at the end of 1940 inclusive of the above with the addition of North China, Mongolia and Central China was given as Yen 10,100,000,000. It is easy to see that when the amount of yen currencies in the southern region are added, the total sum will be of a stupendous amount, because the latter currencies will be the capital for developing and financing the southern region which is the central territory of productivity for the entire world. The total amount of the yen currencies for the entire Great East Asia is a topic of worldwide interest for the students of finance. Important, indeed, is the problem of structure for issuing such a vast amount of currencies and of adjusting them, on which studies should be at once begun in earnest.

##### 5.

To summarise, it may be said that our currency policy in southern economy has just begun its activity, and its substance in a large part will be regulated in its future course. It is clear, however, that its object is to crush the

Anglo-Saxon currencies in the present currency war and to make their reorganization in the future, and thereby to acquire material goods to be mobilized for Japan, Manchoukuo and China. As has been already observed, the object of the establishment of the South Development Chest which forms the centre of this currency mechanism is to be the organ of issuing and circulating the currencies needed for securing defense materials for the realization of the Japan-Manchoukuo-China structure. The chest should so adjust the issuance of currencies that defense materials in the region will be annually provided in abundance. Should this chest fail to function properly in adjusting currency issuance, there would be the fear of our Great East Asia Co-prosperity Sphere turning into a Great East Asia Co-Poverty Sphere.

In this connection, it should be noted that judgments on the proper function of the South Development Chest must not be made according to the ideas of the time-worn economic mechanics of capitalism. For southern economy is still youthful, and consequently its potential economic power is active and vigorous. Now, the currency is often likened to the human blood and the financial organ to the human heart. This, of course, is an analogy. At any rate, it is our important duty to see that the currencies and the financial organs in the southern region should enliven southern economy so full of economic vigour, on a new economic structure.

Thus, by far the most important point in this connection is not so much to cope with any economic or rather financial difficulty, as to relieve this economic difficulty by political means, so that we may establish an efficient wartime structure capable of defending Greater East Asia against its enemies.